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SUBJECT: DRC AUGUST ECONOMIC REVIEW

Summary

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- No resolution on retrocession for 2007.
- Country assistance framework in the planning.
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- Electricity upgrade projects scheduled.
- Wiring DRC and ROC.
- "Pendulum displacement" in the Kivus.
- Cement export banned.
- Chinese delegation visits DRC.
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- Two dead in Lake Albert shootout.
- Potential new oilfields.
- Opening the Kamoto Copper Mines.
- Minerals being flown out of the DRC.
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- Potential South African construction projects.
- Kasai Occidental: Mystery Illness
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Aviation

12. (U) New aviation regulations.

On July 28 Vice Minister of Transportation, Laure Marie Kawanda Kayena, declared that the GDRC is in strict compliance with international aviation regulations. The Minister also gave a six-month deadline for all airlines to cease using Antonov aircraft. Meanwhile, on August 27 an Antonov plane crash killed 13 and seriously injured two others. Following the accident the Minister of Transportation suspended the Director of Civil Aviation and the Director of Kongolo Airport for not enforcing aviation rules against transporting passengers and minerals (as cargo) together.

Budget

13. (U) No resolution on retrocession for 2007.

Ministry of Budget Muzitu, experts and provincial authorities met from 11-24 August, but did not reach consensus on how and when to implement the 40 percent retrocession of central government revenues to the provinces, as is called for in the 2006 Constitution. Muzitu said that implementation should be delayed until at least January 2008 and this was later confirmed by President Kabila on August 28.

Cooperation

¶4. (U) Country assistance framework in the planning.
The World Bank, IMF, African Development Bank and the GDRC met in Kinshasa August 27 to decide how to apply the Country Assistance Framework (CAF). This plan, designed as a three-year roadmap for DRC development, is supposed to begin being implemented this year.

Education -----

¶5. (U) Teachers' union gives ultimatum to GDRC.
The national public school teachers' union (SYECO) rejected a GDRC salary increase proposal; SYECO claims its members need further benefits. SYECO demanded these increases by end August, before school restarts. The union called another general assembly meeting for September 1 to decide whether to return to classrooms on September 3. (Note: See SepTel about back to school labor issues. End note)

¶6. (U) Catholic school teachers suspend opening day.
The Catholic Schools Teachers' Union (SYNECAT) decided not to go back to school as scheduled by the GDRC. The decision was reached because the government has refused to meet with teachers' salary demands.

Electricity -----

¶7. (U) Electricity upgrade projects scheduled.
South African firm ABB (Asea, Brown, and Boveri) Holding has provided USD 200 million for two electricity projects in the DRC. The first project will bring the Kimwenza station in Kinshasa back up to 75 Mw from its current 12 Mw output for Kinshasa and Brazzaville. The second will double the electricity output of the

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Zongo hydroelectric plant in Bas Congo to 150 Mw. The additional power will be used in Gombe and Ngaliema, two neighborhoods in Kinshasa. ABB will also facilitate the electrification of western Kasai by creating a branch transmission line from the existing Inga-Katanga power line.

¶8. (U) Wiring DRC and ROC.
Experts from Angola, Congo-Brazzaville, and DRC met with the Central Africa Energy Pool (PEAC) to discuss connecting the DRC Inga Dam with Pointe Noire in the ROC. Approximately 370 kilometers long, the cost of this project is unknown and would require the construction of transmission lines through the Cabinda enclave of Angola.

Humanitarian -----

¶9. (U) "Pendulum displacement" in the Kivus.
Thousands of internally displaced persons (IDPs) in the Kivus leave their villages and fields at night to sleep in safer areas, closer to UN peacekeepers. "Pendulum displacement" makes it difficult for aid workers to determine the numbers of IDPs, and where and how to deliver aid to them. During the latest displacement in South Kivu, aid workers could not access remote areas.

Trade -----

¶10. (U) Cement export banned.
The Minister of Economy issued a decree on August 7 prohibiting the export of locally produced grey cement. In an effort to control the rising cost of cement, the price of a 50 kilo (110 pound) sack was set at 10 USD. Sacks of cement, however, are currently selling for up to 20 USD in Kinshasa and 40 USD in the provinces. CILU and CINAT, the two companies who manufacture grey cement, have requested permission to sell directly to distributors, thereby avoiding the middlemen.

Investment -----

¶11. (U) Chinese delegation visits DRC.

On August 5th the China-Africa office in Kinshasa sponsored a delegation of Chinese investors. The visit was guided by the deputy Secretary General of China-Africa, M. Etienne Mabele Bwansa. The

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investors met with the Director of President Kabila's Cabinet and with the ministries of Health, Education, Energy, Labor, Environment, National Economy and External Commerce. (Comment: Interestingly, the delegation did not apparently meet with representatives of the Ministry of Mines, or if they did it was not reported in the press. End comment.)

Petroleum

¶12. (U) Audit to examine petroleum sector income.

The Senate and Parliament have launched an audit to examine the low contribution of the petroleum sector to GDRC revenues. They plan to look at production volume, which is much lower than in DRC's neighboring countries. (Note: DRC output is only about 20K barrels/day; Angola produces about 1.7 million barrels/day, up 30K barrels/day since July. End note)

¶13. (U) Two dead in Lake Albert shootout.

A Congolese soldier and an expatriate British employee of British company Heritage Oil were killed in a shootout on Lake Albert, part of the border between the DRC and Uganda. Heritage is preparing to begin exploitation of high grade crude it has located beneath the Ugandan side of the lake. Heritage also has concessions on the Congolese side of the lake, but has yet to begin exploration activities there. Ugandan President Museveni and DRC President Kabila are scheduled to meet on September 8 in Arusha, Tanzania, to discuss working together to exploit potential petroleum reserves in Lake Albert.

¶14. (U) Potential new oilfields.

According to local sources, foreign investors are interested in exploring for oil near Dekese, Kasai Occidental province. It is known that test holes were drilled throughout the "Central Basin" of the DRC during colonial days and that some of these wells showed promise but were never exploited.

Mining

¶15. (U) Opening the Kamoto Copper Mines.

The Central Mining and Exploration Company (CAMEC) and another

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company, Nikanor, are competing for control of Katanga Mining Limited (KML). Both are interested in reopening the former Gecamines-run Kamoto Mine, which suffered a major collapse of the central portion of the mine in 1990. Since then, production has stopped.

¶16. (U) Minerals being flown out of the DRC.

The President of the Congolese National Assembly, Vital Kamerhe, claimed that there are twelve flights daily from Walikale (North Kivu) to Rwanda, Burundi, and Uganda that deliver gold, diamonds, and coltan.

¶17. (U) GDRC revokes mining licenses.

The GDRC has revoked copper and cobalt licenses held by CAMEC and Savannah Mining in Katanga province. This action was taken in connection with a GDRC review of roughly 60 mining contracts to determine whether they are legal and fair. CAMEC claims the revocation was designed to block its recent all-share bid for Katanga Mining.

Textiles

¶18. (U) Congo-Tex files for bankruptcy.

Congo-Tex, one of two large textile companies in the DRC, has filed for bankruptcy. Congo-Tex was a joint venture between CHA (Chinese) and Texaf (Belgian) groups.

Water

¶19. (U) Potential South African construction projects.
As follow-up to the bilateral commission that met in Kinshasa, South Africa is looking at several Congolese infrastructure projects for possible financing, including the construction of a deep water port in Banana, rehabilitation of the Matadi-Kinshasa Road, construction of a new railway connecting Ilebo and Kinshasa, construction of a deep water port in Banana, rehabilitation of the Matadi-Kinshasa Road, and construction of a new railway connecting Ilebo and Kinshasa.

ESTH Issues

¶20. (SBU) Kasai Occidental: Mystery Illness
Numerous press accounts indicate over 100 people have died over the last two weeks from an unidentified illness in northern Kasai Occidental province following the mysterious death of two chiefs in June. Early reports said the disease seemed similar to typhoid fever, a bacterial illness transmitted by contaminated food or water. The GDRC has sent a team to the zone to investigate, and CDC Kinshasa is monitoring the situation. The Congolese researchers report that there were unexplained deaths of birds and animals in the same area in April and May.

¶21. (U) Media promotes AIDS and HIV education.
Media Contre Sida (Media Against AIDS -- MCS) says that Congolese newspapers should dedicate more space to HIV/AIDS awareness. MCS says about eight percent of all news is AIDS-related, but that this isn't enough and that the DRC should contribute more to HIV/AIDS prevention efforts. MCS said that the media must educate Congolese youth to prevent the spread of AIDS.

Inflation and Exchange Rates

¶22. (U) Post's market survey measured an inflation rate of 1.7 percent for the month of August. The year-to-date inflation now stands at 18 percent. This inflation is mostly due to shortages of some basic food items at the end of the dry season and to clothing sector costs as students prepare to return to classes in early September. Exchange rates remained very stable throughout the country, varying on the order of one to two percent, between 490 to 500 FC to the USD.

Exchange Rates (Congolese francs per 1 USD):

Week ending 7/31 8/3 8/31

CENTRAL BANK RATES 493 495 495

PARALLEL MARKETS:

KINSHASA	490	490	490
LUBUMBASHI	490	490	490
MBUJIMAYI	485	495	500
KISANGANI	490	495	500

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GOMA	495	495	500
BUKAVU	495	495	500